



Bulletin

2003-20B

TAX RATE RECAPITULATION DETAILS RE PREMIUMS ON BONDS OR NOTES UNDER PROPOSITION 2 ½

TO: Mayors and Selectmen City and Town Managers
 Boards of Assessors Executive Secretaries and Finance Directors
 Auditor and Accountants City Solicitors and Town Counsel
 Collectors and Treasurers Regional School Superintendents and Treasurers

FROM: James R. Johnson, Director of Accounts

DATE: October 15, 2003

SUBJECT: Impact of Debt Exclusions on Levy Limit Calculation
 (Supplement to *Bulletin* dated May 28, 2003)

This *Bulletin* presents changes to our *Bulletin* dated May 28, 2003 on this subject which were enacted in the Municipal Relief package, Chapter 46 §33 of the Acts of 2003. The section incorporated the salient provision of our earlier *Bulletin* into General Laws Chapter 44 §20, effective with the FY05 tax rate approval process. In addition, we provide details on completion of the tax rate recapitulation for FY05 and later years to reflect the changes.

A. Statutory Provision

Chapter 46 §33 of the Acts of 2003 adds the following two sentences to General Laws Chapter 44 §20: Effective with the Fiscal Year 2005 tax rate approval process, additions to the levy limit for a debt exclusion are restricted to the true interest cost incurred to finance the excluded project. Premiums received at the time of sale must be offset against the stated interest cost in computing the debt exclusion.

B. Implementation – Bond Issues

Form DE-1 is used to document the amount added to the levy limit for debt exclusions. No change is necessary in preparing the Form DE-1 for the FY04 tax rate recap.

Beginning in FY05, Form DE-1 for a bond issue will be completed as indicated below (the example uses the debt service schedule attached for an actual bond issue dated 11/15/02 for \$18,138,000):

Column G: Debt service (principal and interest) for the current fiscal year

Column H: Adjustments for SBAB or other reimbursements

Applicable portion of premium, computed as follows:

Premium received at time of sale, less cost of issuance *if paid from premium*
divided by total interest payable over life of bond or note
equals a percentage of interest costs
multiplied by the interest included in Column G for current year.

Debt service schedule (applicable portion):

FY	Due date	Principal	Interest	Total
2005	11/15/04		\$397,782.50	
	05/15/05	\$605,000.00	\$397,782.50	\$1,400,565.00
TOTAL		\$18,138,000.00	\$10,469,020.00	\$28,607,920.00

Closing details:

Premium received:	\$811,599.72
<u>Less: Underwriting</u>	- 70,947.64
<u>Less: Bond Insurance</u>	-90,690.00
Net premium	\$649,962.08

Calculation of premium as percentage of interest cost:

<u>Net premium</u>	\$649,962	<u>divided</u> by
Interest cost over life of issue	\$10,469,020	<u>equals</u> 6.2%

Adjustment of interest for FY05 debt exclusion:

FY05 interest (\$397,782.50 twice)	\$795,565
<u>times 6.2% equals</u>	\$49,325

Adjustment for subsequent years: annual interest times 6.2%, e.g., for FY06, \$391,581.25 twice or \$783,162.50 x 6.2% equals \$48,558.

C. Implementation – Note Issue

Completion of the DE-1 form for a note issue will be less complex, since most bond anticipation note issues are for a term of one year with interest payable at maturity. In such a case,

Column G: Debt service -- interest for the current fiscal year

Column H: Adjustments -- premium received, less cost of issuance *if paid from premium.*

For a two year BAN with interest payable semiannually, the premium adjustment would be proportional to the interest payments occurring in each fiscal year.

D. Transition from FY04 to FY05

We recognize that premiums of a material amount began to appear in the fall of 2002. Accordingly, in reviewing Form DE-1 beginning in FY05, adjustments would derive from sales in FY03 and later.

Please note that cases will occur, therefore, where a debt exclusion for which no adjustment is required in FY04 may require an adjustment in FY05.

E. Regional School District Debt Excluded by Member Cities or Towns

Regional School District debt for a project that has been excluded by a city or town will be subject to these same procedures in FY05 and later. The assessment to the city or town should reflect only the net interest cost associated with the project.

F. Accounting Procedures

If receipt of the premium and payment of interest occur in different fiscal years, reservation of the premium for future years' debt service on the excluded project, rather than closing to unreserved fund balance, is required at the end of the fiscal year when the premium is received. Otherwise, the interest payment due will not be fully offset by the addition to the tax levy as a debt exclusion.

The Bureau of Accounts field representative assigned to your city or town can provide assistance on these provisions.

DEBT SERVICE SCHEDULE EXAMPLE

Period Ending	Principal	Interest	Debt Service	Annual Debt Service
11/15/2002				
05/15/2003	\$553,000	\$414,702.50	\$967,702.50	
06/30/2003				\$967,702.50
11/15/2003		406,407.50	406,407.50	
05/15/2004	575,000	406,407.50	981,407.50	
06/30/2004				1,387,815.00
11/15/2004		397,782.50	397,782.50	
05/15/2005	605,000	397,782.50	1,002,782.50	
06/30/2005				1,400,565.00
11/15/2005		391,581.25	391,581.25	
05/15/2006	635,000	391,581.25	1,026,581.25	
06/30/2006				1,418,162.50
11/15/2006		382,850.00	382,850.00	
05/15/2007	665,000	382,850.00	1,047,850.00	
06/30/2007				1,430,700.00
11/15/2007		369,550.00	369,550.00	
05/15/2008	700,000	369,550.00	1,069,550.00	
06/30/2008				1,439,100.00
11/15/2008		355,550.00	355,550.00	
05/15/2009	735,000	355,550.00	1,090,550.00	
06/30/2009				1,446,100.00
11/15/2009		342,687.50	342,687.50	
05/15/2010	770,000	342,687.50	1,112,687.50	
06/30/2010				1,455,375.00
11/15/2010		328,250.00	328,250.00	
05/15/2011	810,000	328,250.00	1,138,250.00	
06/30/2011				1,466,500.00
11/15/2011		312,050.00	312,050.00	
05/15/2012	850,000	312,050.00	1,162,050.00	
06/30/2012				1,474,100.00
11/15/2012		295,050.00	295,050.00	
05/15/2013	895,000	295,050.00	1,190,050.00	
06/30/2013				1,485,100.00
11/15/2013		271,556.25	271,556.25	
05/15/2014	940,000	271,556.25	1,211,556.25	
06/30/2014				1,483,112.50
11/15/2014		246,881.25	246,881.25	
05/15/2015	985,000	246,881.25	1,231,881.25	
06/30/2015				1,478,762.50
11/15/2015		221,025.00	221,025.00	
05/15/2016	1,035,000	221,025.00	1,256,025.00	
06/30/2016				1,477,050.00
11/15/2016		193,856.25	193,856.25	
05/15/2017	1,085,000	193,856.25	1,278,856.25	
06/30/2017				1,472,712.50
11/15/2017		165,375.00	165,375.00	
05/15/2018	1,140,000	165,375.00	1,305,375.00	
06/30/2018				1,470,750.00
11/15/2018		135,450.00	135,450.00	
05/15/2019	1,195,000	135,450.00	1,330,450.00	
06/30/2019				1,465,900.00
11/15/2019		104,081.25	104,081.25	
05/15/2020	1,255,000	104,081.25	1,359,081.25	
06/30/2020				1,463,162.50
11/15/2020		71,137.50	71,137.50	
05/15/2021	1,320,000	71,137.50	1,391,137.50	
06/30/2021				1,462,275.00
11/15/2021		36,487.50	36,487.50	
05/15/2022	1,390,000	36,487.50	1,426,487.50	
06/30/2022				1,462,975.00
TOTAL	\$18,138,000	\$10,469,920.00	\$28,607,920.00	\$28,607,920.00